

Foreign Aid and Regime Change: Assessing the Impact of Different Donors*

Sarah Blodgett Bermeo
Duke University

Paper prepared for presentation at the conference
Aid Transparency and Development Finance: Lessons and Insights from AidData
University College, Oxford, UK
22-25 March, 2010

Abstract

This paper uses newly released data from the PLAID/AidData project to revisit the impact of foreign aid on the likelihood of regime change in the recipient. These new data include a larger universe of aid dollars than has been available previously. Additionally, they make it possible to examine the role of nontraditional aid donors. This allows me to perform one of the first tests assessing whether aid from non-traditional donors, in this case wealthy oil states, has different effects in the recipient than do forms of aid more traditionally studied. Using the fact that “oil donors” and OECD donors likely have different preferences regarding democratization in recipient states, I analyze whether donor intent matters in determining the impact of aid on the likelihood of a democratic transition. The results strongly confirm the hypothesis that “oil aid” behaves differently than other aid. While aid from oil-rich sources decreases the likelihood of a democratic transition, the opposite is true of aid from other sources. I also use likely differences in donor preferences over time to see if these changes produce different effects on outcomes in line with changing donor intent. I find that this is the case. Together, these results shine light on the central role of donor intent in affecting outcomes from aid distribution, and call into question the often-made claim that aid dollars are always a fungible resource for recipient governments.

*Sarah Bermeo is Assistant Professor of Public Policy and Political Science, Duke University (contact: sarah.bermeo@duke.edu).

Development assistance originated with the Marshal Plan to aid European recovery after World War II, and evolved to become a lasting institution of foreign policy between developed and developing countries. Members of the Organization for Economic Cooperation and Development are the largest and most studied of foreign aid donors. Together, OECD donors and multilateral organizations financed primarily by these same states give assistance to almost every developing country in the world each year. More recent trends show that aid is now financed by petro-states, newly industrialized economies such as Korea and Poland, and a rising China in addition to the traditional aid donors.

While foreign aid is ostensibly meant to promote development in the recipients, there are numerous scholars who question the efficacy of aid and even those who argue that aid may have harmful effects. One area that has received increased attention in recent studies is the impact of aid on the potential for regime change - particularly the likelihood of transitions to democracy. Similar to oil revenue, aid can provide a government with non-tax revenue, weakening the accountability that governments feel when they are beholden to their citizens for financing and increasing the revenue available to the current regime. Multiple studies have found that aid has a negative effect on the likelihood of transitions (e.g. Morrison, 2009; Kalyvitis and Vlachaki, 2009); Djankov et al (2008) go so far as to claim that aid is a bigger curse than oil. Bermeo (2009) argues that this effect is confined to the cold war period, with no evidence that aid commitments after 1991 have a negative effect on the likelihood of regime transition. Knack (2004) finds that aid does not promote democracy, but neither does it prevent democratization.

Alternatively, perhaps aid has the potential to exert a positive impact on democracy in a recipient. Dunning (2004) finds that foreign aid enhances democracy in sub-Saharan Africa when the analysis is confined to the post-1987 period. Donors may place pro-democracy conditions on aid receipts or use aid dollars to finance democratizing forces within an authoritarian recipient. Nielsen and Nielson (2010) find that aid targeting democratization has increased in recent years. However, substantial skepticism exists regarding the efficacy of aid at enforcing conditionality

(e.g. Stone, 2004) or improving institutions (e.g. Alesina and Weder, 2002). Indeed, aid bureaucracies may feel pressure simply to keep aid flowing, making it difficult to credibly threaten withdrawal of funds (Dollar and Pritchett, 1998).

Traditional concerns about the efficacy of conditionality have been compounded by the rise of “non-traditional” aid donors. If OECD aid has a neutral or negative impact on the likelihood of democratic transition, what about aid from China or Saudi Arabia? Surely democratization is not part of the objective function for these donors. As non-democratic donors continue to increase in importance, they present a further challenge to OECD authority in the aid world. If an authoritarian recipient can supplement its finances through a sympathetic donor, it has less need to comply with conditions attached to more traditional forms of aid.

The analysis presented here uses data from the Project Level Aid (PLAID) dataset to revisit the relationship between aid dollars and the likelihood of regime change in the post-cold war period. PLAID not only accounts for a higher dollar value of aid flows from traditional bilateral and multilateral donors; it also includes data for donors that I group under the heading of “oil donors”. This allows for a comparison of the impact of aid on regime change from different types of donors.

Examining data from 1992 through 2002, I find that during this period the total amount of aid received increased the likelihood of a democratic transition, but that this effect was attenuated by the presence of “oil aid”. Aid from traditional donors is not simply another source of income for poor, authoritarian governments. Not only is the effect of this aid in the opposite direction from that of oil wealth; it is also in the opposite direction from another type of aid - that from non-democratic, oil producing states. Evidence is presented suggesting that this difference is due both to the type of countries selected by oil donors and to the different effects of non-oil and oil aid within recipients. Importantly, even when the universe of cases is restricted to those receiving positive amounts of both “non-oil” and “oil” aid, the effect of non-oil aid on the likelihood of a democratic transition is different from the effect of oil aid. This suggests that Western donors can

have an impact on how their aid is spent within a recipient: not all aid functions as a fungible resource transfer.

1 Is Aid Oil?

There is a significant and growing literature on the impact of non-tax revenue on the quality of democracy and the likelihood of a democratic transition. Ross (2009) provides one of the most comprehensive looks at the different potential causal mechanisms that might lead non-tax revenue from oil sales to inhibit democratic transitions. Those potentially relevant for extending the study to aid revenue include: the retarding of a modernization process, an enhanced ability to repress, increasing corruption, an asset specificity effect, and a rentier effect - the last consisting of a spending effect, taxation effect and civil society effect. Ross (2009) finds evidence supportive only of the rentier effect as a causal mechanism linking oil revenue to democratization. However, it is worth considering each of the potential effects here as the impact of aid on regime change (if any) may operate through different causal mechanisms than those observed with oil.¹

If foreign aid functions as a no-strings-attached transfer to recipient governments, then it is plausible that aid money enhances repression (allowing the government more resources to repress dissent) and contributes to a spending effect (allowing the government to increase spending to buy support). Additionally, more transfers within a society are likely to increase corruption, whether those transfers originate from oil or aid. Since foreign aid is an asset that a leader loses when he/she is no longer in power, to the extent that aid is personally profitable it could contribute to a reluctance to leave office (the asset specificity effect). The hypothesis that aid, like oil, may operate through these mechanisms depends on (1) aid being provided to the government and/or (2) aid being sufficiently fungible for the government to carry out its own agenda without significant interference from aid donors. There are reasons to suspect that neither of these hold in

¹Ross (2009) also includes a “foreign support” effect which is not discussed here. Foreign aid is by definition “foreign support”, so foreign support is not thought of as an “alternative” causal mechanism in this paper.

the post-cold war period, particularly for authoritarian regimes.

The idea that foreign economic aid is a direct transfer from a donor government to a recipient government is a common misconception. Large donors, such as the United States and Japan, almost never use government-to-government transfers to provide aid in the post-cold war period. Other donors do grant fungible “budget support” to recipients, but this is conditioned on the quality of governance. Although countries such as Zaire (under Mobutu) and the Philippines (under Marcos) did receive budget support during the 1980s, it would be virtually unthinkable for an OECD donor to grant budget support to the DR Congo, Zimbabwe, or Myanmar today because of the unacceptable state of the institutions in these recipients. Bermeo (2008) shows that in recent years the proportion of aid to a recipient channeled through NGOs and multilateral institutions is inversely related to quality of governance - meaning that poorly governed recipients are less likely to get aid flowing directly into government coffers.

Of course, whether or not the government has direct access to funds does not matter if aid is highly fungible. One possibility is that aid is used to complete projects that the government would have undertaken in its absence, thereby freeing up government finances for other uses. The evidence on aid fungibility is mixed. Feyzioglu et al (1998) , the work most commonly cited study in support of aid fungibility, was only able to examine concessionary loans (not grants), and could only analyze at most 38 recipient countries. In a case study approach, Pack and Pack (1990) find no evidence of aid fungibility across sectors in Indonesia, but find that aid is fungible in the Dominican Republic (Pack and Pack, 1993). Collier (2006) argues that fungibility in some African countries may be limited by the fact that aid has been providing virtually all of the country’s development finance in the recent past. Thus, additional money that is used for a development project cannot displace government funding, since the government has been allowing outside donors to finance development. Examining aid effectiveness, Clemens et al (2004) find that the purpose for which aid is allocated has an impact on its ability to promote development - this is inconsistent with the idea that all aid is the same. Importantly, no

cross-national empirical study has explicitly examined aid fungibility in the post-cold war period. Below I will test whether the type of donor influences the impact of aid on the likelihood of regime change. If donor matters, this is additional evidence that not all aid is interchangeable.

Other potential links between aid and democratization do not depend on direct government access to funds. Supporters of the modernization school of thought might argue that if aid promotes development or increases access to education it should have a positive impact on the likelihood of a democratic transition. Furthermore, there is the possibility that aid empowers civil society, as it can be channeled through non-governmental organizations. The net impact of aid on recipient government taxation is difficult to assess theoretically. On the one hand, aid clearly provides a revenue stream that can substitute for tax dollars in government spending. Thus, to the extent that taxation improves the accountability chain between government and the governed, aid may dampen this effect. Alternatively, aid can be provided in the form of technical cooperation with the express goal of enhancing government institutions for taxation. A recent example shows even further complexity in the aid/taxation relationship. In 2005 the relatively new United States Millennium Challenge Corporation threatened to withhold funding for a road from the government of Nicaragua unless the legislature first passed a law creating a new tax to fund maintenance on the road. The outside pressure from the MCC was key in getting the law through the legislature.²

The evidence to date on the link between aid and democratization is mixed. Arguing that many of the causal mechanisms linking oil with regime longevity apply to all forms of non-tax revenue, Morrison (2009) finds support for the idea that the effect of foreign aid grants on the likelihood of regime transition is in the same direction as the effect of oil revenue. Djankov et al (2008) similarly argue that aid acts as a resource windfall, increasing rent-seeking behavior and resulting in less democratic institutions. They find that, in terms of likelihood of regime change, the curse from aid may be even larger than that associated with natural resource wealth, a finding

²Author interviews with staff from MCC and Nicaraguan government officials in Managua, Nicaragua.

that the empirical results in Morrison (2009) seem to corroborate. Kalyvitis and Vlachaki (2009) similarly conclude that increased aid flows are associated with a decreased likelihood of democratic transition.

The negative effect of aid on regime transitions shows up in studies that pool several years of data, not separating out cold war and post-cold war effects. In an early attempt to distinguish between the two periods, Dunning (2004) finds that official development assistance to sub-Saharan Africa had a positive impact on the level of democracy in a recipient (measured as the average score on the Freedom House indicators of civil liberties and political rights), but only when the period is restricted to years since 1987. Knack (2004) finds that aid as a share of GNP, averaged over the period 1975-1999, does not have a statistically significant effect on changes in levels of democracy in a recipient between 1975 and 2000; neither is there an effect when the period is restricted to 1990-2000. Bermeo (2009) uses the data from Morrison (2009) to show that the negative effect of aid grants on the probability of regime transition in that study is confined to the cold war period.

Ross (2009) notes that the negative relationship between oil income and democratization is interesting in part because non-oil income has the opposite relationship with democracy. He writes “[i]n general, income from sources other than petroleum is strongly and positively correlated with the likelihood that an authoritarian state will become (and stay) democratic” [4]. Thus, to the extent that aid revenue exhibits similar undesirable characteristics to oil income, it will tend to be anti-democratic. On the other hand, if aid works mainly to increase the average income within a recipient without the unwelcome side-effects attached to other forms of non-tax revenue, there is reason to hope that it could be democracy-enhancing.

2 Hypotheses

The empirical analysis in this paper examines whether donor intent plays a role in determining the impact of aid on the likelihood of a democratic transition in a recipient. To do this I compare aid in the post-cold war with cold war aid. I also examine whether aid from oil rich sources, what I term “oil aid” has different effects than aid from other donors.

During the cold war, OECD donors used aid to prop up authoritarian regimes that were on the “right” side of the bipolar power struggle. With the fall of the Soviet Union it was no longer necessary to use aid for this purpose. Instead, donors have increasingly listed democracy promotion as a goal of foreign aid policy. This helps explain why Dunning (2004) and Bermeo (2009) find that aid in the post-cold war period has different effects on democratization in the recipient than aid during the cold war, and is consistent with the explanations offered in these studies.

The newly released PLAID/AidData dataset allows me to test this hypothesis for a more comprehensive set of aid projects than has been done in the past. Therefore, I test the following hypothesis:

H1: In the post-cold war period, aid receipts are positively associated with the likelihood of a democratic transition.

Even if democratization has become a priority for OECD donors in the post-cold war period, there is no reason to believe this priority extends to all donors. The PLAID/AidData database includes data on aid from a group of donors that comprises what I term “oil aid”. The bilateral donors include Saudi Arabia, Kuwait, and the United Arab Emirates; multilateral donors include the Organization for Petroleum Exporting Countries (OPEC), the Arab Fund for Economic and Social Development (AFESD), and the Arab Bank for Economic Development in Africa

(BADEA). Since the vast majority of “oil aid” comes from non-democracies, it is unlikely that this aid would focus on democracy promotion or be conditioned on democratic progress. Furthermore, countries receiving this aid may be less susceptible to pressure from OECD donors for democratization, because they have an alternative (less conditional) source of funding. If aid functions as a simple resource transfer, then the identity of the donor should not affect the impact of aid on the likelihood of democratization. However, if donor intent matters, then we should see the impact of aid on the likelihood of a democratic transition differ across donors with varying intent. Therefore, I test the following:

H2: In the post-cold war period, aid from oil producing donors has a more negative impact on the likelihood of a democratic transition than aid from other donors.

2.1 Is there something about oil recipients?

If “oil aid” has a different effect than other aid on the likelihood of a democratic transition, this could be for either of two reasons: (1) oil aid goes to different recipients, and disproportionately to those that are less likely to democratize and/or (2) within chosen recipients, oil aid has a different impact than aid from other sources.

There are reasons to expect that oil aid disproportionately targets a select group of recipients, and ones that may be less likely to democratize. First, aid may be inversely related to distance, and many rich oil nations are surrounded by poorer authoritarian regimes that have access to their own forms of non-tax revenue, and so are potentially less likely to democratize. Second, OECD donors may “punish” countries that are less likely to democratize by giving them less aid. In this case, oil aid would make up a greater portion of total aid receipts in these countries. Furthermore, lower levels of other aid may create an opportunity for oil donors to extend their influence over these states by increasing their own aid flows. If this dynamic occurs, the impact of any

punishment from OECD donors may be largely counteracted by increased oil aid.

Another possibility is that, within a given recipient, oil aid has a different effect than aid from other sources. It is possible that recipients of oil aid are *ex ante* no more or less likely to transition to democracy than recipients that do not receive oil aid. In this case, it is something about the amount of oil aid, rather than other characteristics of the recipient, that creates a link between oil aid and likelihood of democratization. For instance, within oil recipients, it could be that those with higher levels of oil aid feel less constrained by conditionality from OECD donors, since they are able to substitute some oil aid for OECD aid. To better understand whether it is the amount of oil aid or the choice of recipients that is driving any observed relationship between oil aid and democratization, I test the following hypotheses:

H3: Countries chosen to receive oil aid are less likely to transition to democracy than recipients that are not favored with oil aid.

H4: Within oil recipients, oil aid and non-oil aid have different effects on the likelihood of a democratic transition.

3 Empirical Analysis

To test the above hypotheses regarding the impact of aid on democratic transitions, I start with a universe of potential aid recipients. To be considered eligible for aid, a country must have received some aid from some source in any one year from 1960-2007, as reported by the World Bank's World Development Indicators. If this is the case, the country is considered eligible for aid in all years (or years since independence), although the value may be zero in some years. In practice this does not exclude any developing countries from the dataset, but it does exclude many

high-income countries that are not eligible to receive foreign aid. In a few instances recipients “graduated” from foreign aid eligibility, in which case they are not included in the dataset for years in which they are no longer eligible to receive foreign aid. The result is a dataset of 163 “aid eligible” countries. The post-cold war analysis contains observations for the years 1992-2002, the last year for which the dependent variable is coded. Separate analyses present results for the period 1980-1988 for comparison.

3.1 Data

Dependent Variable For the dependent variable, I follow Ross (2009) and use the dichotomous measure of democracy from Przeworski et al (2000), updated by Cheibub and Gandhi (2004) to code transitions to democracy. According to Przeworski et al (2000) a regime is considered a dictatorship if the chief executive is not elected, the legislature is not elected, there is no more than one party, or there has been no alternation in power. A country is considered to have transitioned to democracy if its score on this variable moves from 0 at time $t-1$ to 1 at time t . When examining democratic transitions, I include only those observations whose value on this variable at time $t-1$ is zero: these are the only countries with the potential for a democratic transition.

Aid The key explanatory variables measure the amount of foreign aid a country received in year $t-1$. The variable *Total Aid* is measured from the PLAID/AidData database, by summing across all projects for that recipient in a given year. This includes both bilateral and multilateral aid commitments, from all donors reported in PLAID. This figure includes some financial flows that have not been traditionally captured by measures of foreign aid and is measured in constant \$US (2000). The natural log of (one plus) this value is used as a key explanatory variable, lagged one year. The variable *Oil Aid/Total Aid* is the ratio of aid from oil donors (Kuwait, Saudi Arabia, United Arab Emirates, OPEC, AFESD, BADEA) to *Total Aid*. *Oil Aid* is the sum of aid from the six oil donors; *Non-oil Aid* is *Total Aid* minus *Oil Aid*.

I initially test the above hypotheses using aid flows rather than aid flows divided by population or GDP, as is often done. This has to do with the proposed causal links between aid and regime longevity. If aid acts as a source of finance to buy support and squash dissent, it is not clear that we want to deflate this by GDP or population. Since this analysis is limited to authoritarian regimes, it is likely that the government need only target a portion of the population to maintain power (buy support from the winning coalition or repress only those acting unfavorably). Thus, it is not clear that the level of aid - a measure of the non-deflated value of available aid resources - is a less-preferred measure. However, because of their prevalence in the literature, I also test the hypotheses using *Aid per capita* and *Aid/GDP*, where population and GDP data come from the World Bank's World Development Indicators (WDI).

Control Variables Using data from Ross (2009), I include *Oil Wealth* or *Oil Wealth per capita* as measures of wealth from oil in the recipient country. I also include a measure of *Income* which is GDP per capita in purchasing power parity terms from the WDI, and its square; and the measure of growth in GDP per capita from the same source. I control for regime age *Longevity* using the lag of the variable "Durable" from the Polity IV dataset, and for the number of previous transitions based on the Cheibub and Gandhi (2004) coding of democracies and dictatorships. The variable *Year* is included to capture any trending in the data over time.

3.2 Results

I estimate Logit models with standard errors clustered on recipient, including only those observations where the recipient was a dictatorship in the prior year. Table 1 shows results for the period 1992-2002. From Model 1 we see that the amount of aid received by a country in the previous year has a significant, positive effect on the likelihood of a transition to democracy. Model 2 is the same except that it adds the ratio of oil aid to total aid. Here we see that while total aid continues to be positively associated with the likelihood of a democratic transition, a higher

proportion of aid from oil donors decreases the likelihood of a democratic transition, providing support for H2 that the impact of aid on the likelihood of a transition differs across donors. Model 3 is the same as Model 2, but it restricts the sample to recipients with a per capita income below \$3,000 - roughly the cutoff between lower-middle income and upper-middle income countries in the year 2000. Model 4 is the same as Model 2 but excludes recipients located in the Middle East and North Africa (World Bank classification). Removing these observations ensures that the results are not being driven by this somewhat unique region. Model 5 excludes both countries with per capita income less than \$3,000 and those located in the Middle East/North Africa. For each of these subsets of recipients the main results hold: overall aid has a positive and significant effect on the likelihood of regime change, while increasing the proportion of aid coming from oil donors has a negative effect on the likelihood of democratization.

Instead of including total aid and the ratio of oil aid to total aid, Model 6 instead includes the non-oil aid and oil aid separately. Once again, the main result of opposite signs on these two variables holds. Model 7 measures both aid and oil wealth in per capita terms, rather than in absolute levels, with no qualitative change to the results. Model 8 uses Aid/GDP instead of total aid; here Aid/GDP is still positive, but loses significance ($p=.20$), while the ratio of oil aid to total aid remains negative and significant. As noted above, there are reasons why scaling by GDP is not ideal in light of the causal mechanisms hypothesized, particularly in an authoritarian regime where the relevant population for bribery or repression is likely a small subset of the entire country. However, even in this situation there is evidence that the proportion of aid accounted for by oil has an impact on the likelihood for regime transition.

It is worthwhile to exam whether there are other types of aid that also decrease the likelihood of a democratic transition. Table 2 shows five models analogous to Table 1, Model 2 but varying the donor ratio included in the regression. For example, DAC Aid/Total Aid is the ratio of aid from the OECD's Development Assistance Committee to Total Aid, and the same is true for IMF aid, World Bank (WB) aid, and UN aid. I would not expect to see significant signs on these

| | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 | Model 7 | Model 8 |
|---------------------------------------|----------------------|----------------------|---------------------|---------------------|----------------------|---------------------|---------------------|---------------------|
| ln (Total Aid) (lagged) | 0.465** (0.21) | 0.478** (0.20) | 0.514** (0.22) | 0.490** (0.19) | 0.505** (0.22) | | | |
| Oil Aid/Total Aid (lagged) | -22.854** (10.66) | -22.628** (10.30) | | -19.713* (11.26) | -22.407** (10.62) | | -18.274** (8.51) | -16.793** (7.98) |
| ln (Non-oil Aid) (lagged) | | | | | | 0.623*** (0.21) | | |
| ln (Oil Aid) (lagged) | | | | | | -0.078*** (0.03) | | |
| ln (Aid per capita) (lagged) | | | | | | | 0.382** (0.19) | |
| Aid/GDP (lagged) | | | | | | | | 6.261 (4.87) |
| ln (Oil Wealth) (lagged) | -0.071** (0.03) | -0.083*** (0.03) | -0.154*** (0.05) | -0.079*** (0.03) | -0.161*** (0.05) | -0.090*** (0.03) | | -0.057** (0.03) |
| ln(Oil Wealth per capita) (lagged) | | | | | | | -0.160 (0.12) | |
| ln (Income) (lagged) | 7.969* (4.47) | 7.840** (3.99) | 1.833*** (0.65) | 7.769** (3.72) | 1.971*** (0.70) | 8.528** (3.92) | 4.870 (3.66) | 6.221 (4.17) |
| $[\ln(Income)]^2$ (lagged) | -0.523* (0.30) | -0.509* (0.26) | | -0.501** (0.24) | | -0.565** (0.26) | -0.327 (0.25) | -0.396 (0.28) |
| Growth (lagged) | -0.044* (0.02) | -0.036 (0.02) | -0.031 (0.03) | -0.036 (0.02) | -0.032 (0.03) | -0.038 (0.02) | -0.014 (0.02) | -0.011 (0.02) |
| Longevity (lagged) | -0.145** (0.06) | -0.147** (0.06) | -0.151*** (0.06) | -0.143** (0.06) | -0.141*** (0.05) | -0.153** (0.07) | -0.142** (0.07) | -0.135** (0.06) |
| Previous Transition | 0.099 (0.13) | 0.081 (0.12) | -0.043 (0.21) | 0.055 (0.12) | -0.046 (0.21) | 0.125 (0.12) | 0.124 (0.12) | 0.180 (0.13) |
| Year | -0.154* (0.09) | -0.147* (0.09) | -0.138 (0.09) | -0.156* (0.09) | -0.142 (0.09) | -0.146* (0.09) | -0.146 (0.09) | -0.123 (0.09) |
| Constant | 265.760 (170.25) | 252.729 (176.47) | 251.467 (183.93) | 271.034 (177.31) | 258.624 (183.59) | 246.471 (176.49) | 269.442 (182.44) | 218.957 (171.74) |
| N | 687 | 687 | 418 | 568 | 399 | 687 | 687 | 687 |
| Countries | 81 | 81 | 53 | 68 | 51 | 81 | 81 | 81 |

Table 1: Impact of Aid on the Likelihood of a Democratic Transition, 1992-2002. Dependent variable equals 1 if there is a democratic transition, 0 otherwise. All independent variables lagged one period. Logit Analysis, robust standard errors clustered by country in parentheses. *Significant at the 10 percent level. **Significant at the 5 percent level. ***Significant at the 1 percent level.

coefficients. The DAC donors are major contributors to the IMF, WB, and UN, and together DAC bilateral aid and multilateral aid financed by DAC members makes up a significant portion of total aid. Thus, if these donors have similar preferences, there is reason to think that the impact of aid on democratization would be similar across donors and not depend on which donor has the larger share of overall aid. The exercise is meant as a comparison to see how other ratios compare with that of Oil Aid/Total Aid in Table 1, Model 2.

The results for DAC, the IMF, and UN are as expected: in each model the total amount of aid has a positive impact on the likelihood of a democratic transition, but the ratio for each donor does not seem to make a difference, not approaching the level of statistical significance. The one surprise is the coefficient on the variable WB Aid/Total Aid in Model 3: the larger the percentage of an authoritarian recipient's aid that comes from the World Bank, the less likely it is to experience a democratic transition. This is a puzzle that deserves more treatment than it can be given here. Model 5 in Table 2 simply combines the ratios in a single regression; in this case the ratio of Oil Aid/Total Aid is the only one that has a significant impact on the likelihood of a democratic transition.

Table 3 shows the same models as Table 1, with the analysis restricted to the time period 1980-1988. Surprisingly, it appears that total aid had an impact on the likelihood of a democratic transition in this period as well, although in no model does the result reach significance at the five-percent level. However, this effect is not robust: once the sample is reduced to those recipients with per capita income less than \$3,000 the result disappears (Models 3 and 5). Furthermore, there is no robust relationship between oil aid and the likelihood of democratization. So, while there is some (surprising) evidence that in certain groups of wealthier countries total aid commitments were associated with an increased likelihood of democratization, there are still important differences between the two periods.

It is interesting to ask whether the positive impact of aid on democratic transitions also helps already democratic countries remain that way. Is there a relationship between aid and the

| | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 |
|----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| ln (Total Aid) | 0.560*** (0.21) | 0.454** (0.20) | 0.600*** (0.20) | 0.446** (0.21) | 0.587*** (0.19) |
| DAC Aid/Total Aid | 1.622 (1.02) | | | | 0.224 (1.37) |
| IMF Aid/ Total Aid | | 0.622 (1.70) | | | 0.353 (1.67) |
| WB Aid/Total Aid | | | -3.117*** (1.14) | | -2.696 (1.77) |
| UN Aid/Total Aid | | | | -12.213 (15.35) | -8.015 (15.80) |
| Oil Aid/Total Aid | | | | | -22.247* (11.90) |
| ln (Oil Wealth) | -0.075*** (0.03) | -0.072** (0.03) | -0.076*** (0.03) | -0.073** (0.03) | -0.087*** (0.03) |
| ln (Income) | 8.383* (4.63) | 7.889* (4.46) | 8.117* (4.56) | 7.906* (4.39) | 8.571* (4.57) |
| $[\ln(Income)]^2$ | -0.542* (0.31) | -0.517* (0.30) | -0.531* (0.30) | -0.520* (0.29) | -0.561* (0.31) |
| Growth | -0.044* (0.02) | -0.044* (0.02) | -0.045** (0.02) | -0.040* (0.02) | -0.034 (0.02) |
| Longevity | -0.142** (0.06) | -0.144** (0.06) | -0.148** (0.06) | -0.146** (0.06) | -0.145** (0.06) |
| Previous Transitions | 0.112 (0.14) | 0.101 (0.13) | 0.122 (0.14) | 0.101 (0.13) | 0.114 (0.13) |
| Year | -0.154* (0.09) | -0.156* (0.09) | -0.158* (0.08) | -0.151* (0.09) | -0.156* (0.09) |
| Constant | 260.682 (171.73) | 271.040 (172.38) | 271.461 (166.14) | 260.541 (172.91) | 266.362 (178.34) |
| N | 687 | 687 | 687 | 687 | 687 |
| Countries | 81 | 81 | 81 | 81 | 81 |

Table 2: Ratio of Donor Aid to Total Aid, Various Donors. Time period is 1992-2002. Dependent variable equals 1 if there is a democratic transition, 0 otherwise. All independent variables lagged one period. Logit Analysis, robust standard errors clustered by country in parentheses. *Significant at the 10 percent level. **Significant at the 5 percent level. ***Significant at the 1 percent level.

| | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 | Model 7 | Model 8 |
|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|------------|
| ln (Total Aid) | 0.436* | 0.426* | 0.450 | 0.434* | 0.485 | | | |
| (lagged) | (0.24) | (0.24) | (0.71) | (0.24) | (0.72) | | | |
| Oil Aid/Total Aid | | -2.005 | 4.118* | 1.248 | 4.025* | | -2.739 | -0.764 |
| (lagged) | | (4.51) | (2.31) | (3.76) | (2.33) | | (4.36) | (2.21) |
| ln (Non-oil Aid) | | | | | | 0.387* | | |
| (lagged) | | | | | | (0.21) | | |
| ln (Oil Aid) | | | | | | 0.018 | | |
| (lagged) | | | | | | (0.04) | | |
| ln (Aid per capita) | | | | | | | 0.166 | |
| (lagged) | | | | | | | (0.31) | |
| Aid/GDP | | | | | | | | -31.720* |
| (lagged) | | | | | | | | (17.68) |
| ln(Oil Wealth) | -0.082** | -0.082** | -0.074 | -0.080** | -0.076 | -0.082** | | -0.084** |
| (lagged) | (0.04) | (0.04) | (0.08) | (0.04) | (0.07) | (0.04) | | (0.03) |
| ln(Oil Wealth per capita) | | | | | | | -0.295 | |
| (lagged) | | | | | | | (0.22) | |
| ln (Income) | 11.989 | 11.410 | 5.264*** | 13.221 | 5.301*** | 11.140 | 7.940 | 11.639 |
| (lagged) | (8.71) | (8.97) | (1.54) | (10.99) | (1.50) | (8.31) | (6.08) | (8.62) |
| $[\ln(Income)]^2$ | -0.630 | -0.596 | | -0.696 | | -0.571 | -0.375 | -0.643 |
| (lagged) | (0.55) | (0.57) | | (0.69) | | (0.53) | (0.38) | (0.55) |
| Growth | 0.012 | 0.014 | -0.081 | 0.024 | -0.083 | 0.005 | 0.020 | 0.029 |
| (lagged) | (0.06) | (0.07) | (0.10) | (0.06) | (0.10) | (0.06) | (0.06) | (0.05) |
| Longevity | -0.296*** | -0.296*** | -0.244*** | -0.313*** | -0.229** | -0.296*** | -0.312*** | -0.298*** |
| | (0.06) | (0.06) | (0.08) | (0.07) | (0.09) | (0.06) | (0.06) | (0.06) |
| Previous Transition | 0.518*** | 0.508*** | 0.914*** | 0.502*** | 0.909*** | 0.524*** | 0.500*** | 0.592*** |
| | (0.14) | (0.14) | (0.28) | (0.15) | (0.28) | (0.14) | (0.17) | (0.20) |
| Year | 0.317** | 0.311** | 0.718** | 0.378*** | 0.719** | 0.331** | 0.306** | 0.250** |
| | (0.12) | (0.13) | (0.30) | (0.14) | (0.29) | (0.14) | (0.14) | (0.12) |
| Constant | -693.188*** | -680.398*** | -1477.006** | -820.168*** | -1478.674** | -718.038*** | -649.082** | -548.450** |
| | (244.33) | (247.85) | (597.27) | (278.13) | (580.73) | (266.48) | (269.45) | (239.49) |
| N | 549 | 549 | 332 | 478 | 324 | 549 | 549 | 549 |
| Countries | 80 | 80 | 50 | 71 | 49 | 80 | 80 | 80 |

Table 3: Impact of Aid on the Likelihood of a Democratic Transition, 1980-1988. Dependent variable equals 1 if there is a democratic transition, 0 otherwise. All independent variables lagged one period. Logit Analysis, robust standard errors clustered by country in parentheses. *Significant at the 10 percent level. **Significant at the 5 percent level. ***Significant at the 1 percent level.

likelihood of an authoritarian transition? Does this differ by type of donor? This question is taken up in Table 4, which repeats the models in Table 1 but looking at authoritarian, rather than democratic, transitions. Here we see that receiving more aid is associated with a decreased likelihood of an authoritarian transition. However, there does not appear to be a separate effect for oil aid. Thus, it appears that while oil aid helps authoritarian governments remain in power, it does not increase the likelihood that new authoritarian regimes will emerge where a recipient is currently democratic.

3.2.1 Are Oil Recipients Different?

In this section I return to the questions raised by H3 and H4, to help determine whether countries that receive oil aid are somehow different from recipients that do not receive aid from oil donors. This is not a trivial question, as there is substantial selection into the oil recipient category. For example, of the 687 observations used in Table 1, Model 2, only 358 received any aid at all from oil donors. One possibility is that oil aid is making up for shortfalls from non-oil donors, who are trying to punish these particular authoritarian regimes. However, that does not appear to be the case. Using the observations from Table 1, Model 2, countries receiving any oil aid received, on average \$822 million in non-oil aid; those not receiving oil aid received, on average \$676 million in non-oil aid. Although the difference is not statistically significant, it certainly suggests that oil aid is not going to those recipients ignored by other aid donors.

Table 5 lists democratic transitions in the dataset between 1992 and 2002. Countries are sorted on whether or not they received oil aid in the previous year. The most notable thing about the list is that all but one of the countries receiving oil aid that transitioned to democracy was in Sub-Saharan Africa. The Sub-Saharan cases are divided equally between oil recipients (9) and recipients that did not receive oil aid in the previous year (9). However, the list of transitions that did not receive oil aid also contains several cases from other regions of the world. Additionally of note, while observations in the empirical analysis are divided almost equally between countries

| | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 | Model 7 | Model 8 |
|--|----------------------|----------------------|---------------------|----------------------|---------------------|----------------------|----------------------|----------------------|
| ln (Total Aid) (lagged) | -0.168*** (0.04) | -0.171*** (0.04) | -0.214** (0.08) | -0.171*** (0.04) | -0.214** (0.08) | | | |
| Oil Aid/Total Aid (lagged) | 5.923 (5.42) | 5.923 (5.42) | -14.689 (44.97) | 5.851 (5.38) | -14.689 (44.97) | | 10.453 (7.97) | 5.233 (6.25) |
| ln (Non-oil Aid) (lagged) | | | | | | -0.155*** (0.04) | | |
| ln (Oil Aid) (lagged) | | | | | | -0.056 (0.07) | | |
| ln (Aid per capita) (lagged) | | | | | | | -0.057 (0.45) | |
| Aid/GDP (lagged) | | | | | | | | -15.931 (24.99) |
| ln (Oil Wealth) (lagged) | 0.069* (0.04) | 0.072* (0.04) | 0.016 (0.05) | 0.072* (0.04) | 0.016 (0.05) | 0.070* (0.04) | | 0.042 (0.04) |
| ln (Oil Wealth per capita) (lagged) | | | | | | | 0.631* (0.34) | |
| ln (Income) (lagged) | -6.611 (6.39) | -6.681 (6.52) | -2.775*** (0.94) | -6.920 (6.82) | -2.775*** (0.94) | -5.677 (6.05) | -5.945 (6.10) | -6.936 (7.48) |
| $[\ln(Income)]^2$ (lagged) | 0.320 (0.41) | 0.324 (0.41) | | 0.340 (0.43) | | 0.250 (0.39) | 0.237 (0.40) | 0.339 (0.47) |
| Growth (lagged) | -0.098** (0.04) | -0.103** (0.04) | -0.076*** (0.03) | -0.103** (0.04) | -0.076*** (0.03) | -0.086** (0.04) | -0.126** (0.05) | -0.111*** (0.04) |
| Longevity | 0.020 (0.03) | 0.021 (0.03) | 0.051* (0.03) | 0.021 (0.03) | 0.051* (0.03) | 0.018 (0.03) | 0.018 (0.03) | 0.011 (0.03) |
| Previous transition | 0.229 (0.25) | 0.232 (0.25) | 0.418 (0.28) | 0.233 (0.25) | 0.418 (0.28) | 0.269 (0.27) | 0.238 (0.26) | 0.225 (0.25) |
| Year | 0.111 (0.10) | 0.116 (0.10) | 0.040 (0.12) | 0.116 (0.10) | 0.040 (0.12) | 0.095 (0.10) | 0.084 (0.11) | 0.111 (0.11) |
| Constant | -191.892 (205.95) | -202.040 (202.22) | -61.987 (244.01) | -201.774 (202.27) | -61.987 (244.01) | -163.480 (192.49) | -143.716 (214.46) | -193.021 (208.65) |
| N | 628 | 628 | 243 | 617 | 243 | 628 | 628 | 628 |
| Countries | 69 | 69 | 32 | 68 | 32 | 69 | 69 | 69 |

Table 4: Impact of Aid on the Likelihood of an Authoritarian Transition, 1992-2002. Dependent variable equals 1 if there is an authoritarian transition, 0 otherwise. All independent variables lagged one period. Logit Analysis, robust standard errors clustered by country in parentheses. *Significant at the 10 percent level. **Significant at the 5 percent level. ***Significant at the 1 percent level.

| Oil Recipients | | Not Oil Recipients | |
|----------------|------|--------------------------|------|
| Mali | 1992 | Mongolia | 1992 |
| Burundi | 1993 | Thailand | 1992 |
| Madagascar | 1993 | Guyana | 1992 |
| Ghana | 1993 | Congo, Rep. | 1992 |
| Sierra Leone | 1998 | Albania | 1992 |
| Kenya | 1998 | Lesotho | 1993 |
| Senegal | 2000 | Niger | 1993 |
| Niger | 2000 | Central African Republic | 1993 |
| Cote d'Ivoire | 2000 | Malawi | 1994 |
| Peru | 2001 | South Africa | 1994 |
| | | Haiti | 1994 |
| | | Moldova | 1996 |
| | | Sierra Leone | 1996 |
| | | Nigeria | 1999 |
| | | Indonesia | 1999 |
| | | Mexico | 2000 |
| | | Guinea-Bissau | 2000 |

Table 5: Democratic Transitions by Oil Recipient Status, 1992-2002.

receiving oil aid in the previous year and those not receiving oil aid, the list of transitions is much longer for countries not receiving oil aid the year prior to transition (seventeen v. ten).

The analysis in Table 6 takes a more empirical approach to sorting out oil recipients from recipients that receive no oil aid. Model 1 includes the observations from Table 1, Model 2, but substitutes an indicator variable, *Oil Recipient* that is equal to 1 if an observation receives oil aid, for the Oil Aid/Total Aid variable. The negative and significant coefficient on *Oil Recipient* indicates that, even without controlling for how much oil aid a country is receiving, the mere fact of being chosen as an oil recipient has a negative impact on the likelihood of a democratic transition. Models 2 and 3 restrict the sample to those observations in Model 1 that received oil aid in the previous year. Model 2 shows that, within this set of recipients, there is no effect for the total amount of aid on the likelihood of a democratic transition. However, there is a negative association between the portion of aid that comes from oil donors and the likelihood of a democratic transition. Model 3 is similar, but instead enters both non-oil and oil aid. The results

are striking. Even within the group of recipients selected to receive oil aid, an increase in non-oil aid is associated with an increased likelihood of a democratic transition, while an increase in oil aid has the opposite effect. This is evidence that the positive effect of non-oil aid in the broader sample was not masking different effects between recipients that receive oil aid and those that do not. Model 4 repeats Model 3, but only for observations that received no oil aid in the previous year (and so obviously excludes the oil aid variable). Once again, the amount of non-oil aid a country receives is positively related to the likelihood for a democratic transition.

4 Conclusion

Previous studies have reached mixed conclusions regarding the impact of aid on the likelihood of a democratic transition. Those who hold a more pessimistic view believe that aid should not be given to authoritarian regimes because it may actually do harm, decreasing the likelihood of transition. Unfortunately, many of the world's poorest citizens live in non-democratic states, and policy makers intent on helping them understandably don't like the idea of confining aid to democracies.

An alternative explanation is that donor intent matters in determining the role that aid will play in thwarting or promoting regime change. Donors can give budget support to brutal dictatorships, as they did in Zaire during the 1980s, or they can give aid through NGOs in an attempt to reach the poor and bolster civil society. Which method they choose (and there are infinite combinations) can have a significant impact on the ability of aid revenue to operate through the causal mechanisms often discussed in the "resource curse" literature.

The evidence presented here exploits two instances where donor intentions regarding democratization are likely to be different: comparing major donors during and after the cold war and comparing oil donors to non-oil donors in the post-cold war period. Looking over time, there is evidence that the impact of aid on the likelihood of democratization has changed, at least for

| | Model 1 | Model 2 | Model 3 | Model 4 |
|---------------------|-----------|-----------|-----------|----------|
| ln (Total Aid) | 0.609*** | 0.083 | | |
| (lagged) | (0.21) | (0.40) | | |
| Oil Recipient | -1.187*** | | | |
| (lagged) | (0.43) | | | |
| Oil Aid/Total Aid | | -20.103** | | |
| (lagged) | | (8.59) | | |
| ln (Non-oil Aid) | | | 0.629* | 0.542** |
| (lagged) | | | (0.37) | (0.27) |
| ln (Oil Aid) | | | -0.298* | |
| (lagged) | | | (0.16) | |
| ln (Oil Wealth) | -0.087*** | -0.175*** | -0.175*** | -0.068* |
| (lagged) | (0.03) | (0.06) | (0.06) | (0.03) |
| ln (Income) | 8.516** | 14.573 | 16.971 | 7.524** |
| (lagged) | (3.97) | (12.79) | (11.97) | (3.81) |
| $[\ln(Income)]^2$ | -0.565** | -0.931 | -1.106 | -0.500** |
| (lagged) | (0.26) | (0.85) | (0.78) | (0.25) |
| Growth | -0.039 | -0.090** | -0.088** | -0.015 |
| (lagged) | (0.02) | (0.04) | (0.04) | (0.03) |
| Longevity | -0.152** | -0.159 | -0.167 | -0.151** |
| | (0.06) | (0.14) | (0.16) | (0.07) |
| Previous Transition | 0.129 | 0.369 | 0.310 | -0.003 |
| | (0.12) | (0.27) | (0.25) | (0.22) |
| Year | -0.145* | 0.056 | -0.010 | -0.256* |
| | (0.09) | (0.14) | (0.13) | (0.13) |
| Constant | 244.216 | -170.176 | -53.231 | 470.874* |
| | (174.50) | (312.52) | (280.06) | (265.80) |
| N | 687 | 352 | 352 | 335 |
| Countries | 81 | 64 | 64 | 66 |

Table 6: Are Oil Recipients Different? Time period is 1992-2002. Dependent variable equals 1 if there is a democratic transition, 0 otherwise. All independent variables lagged one period. Model 1 includes all authoritarian regimes; Models 2 and 3 include authoritarian regimes that received oil aid in the previous year; Model 4 includes authoritarian regimes that did not receive oil aid in the previous year. Logit Analysis, robust standard errors clustered by country in parentheses. *Significant at the 10 percent level. **Significant at the 5 percent level. ***Significant at the 1 percent level.

countries in the “low” and “lower-middle” income categories. As donor intent regarding democratization changed in the later period, so did the impact of aid on democratization.

Examining different donors in the post-cold war period produces striking results. Even when the analysis is restricted to countries receiving aid from both oil donors and non-oil donors, the effects of aid on the likelihood of a transition to democracy differ across these two categories. Aid from oil donors functions more like natural resource revenue: it helps prop up authoritarian regimes. Aid from non-oil donors has the opposite effect, increasing the likelihood of regime transition. This is strong evidence that the source of the aid, and the intent of the donor, have a significant impact on the effects of aid in the recipient country. It is food for thought to any scholars who treat aid, particularly aid from Western donors, as a fungible resource for the recipient government.

References

- Alesina, Alberto and Beatrice Weder. 2002. "Do Corrupt Governments Receive Less Foreign Aid?" *American Economic Review* 92(4):1126–1137.
- Bermeo, Sarah Blodgett. 2008. *Foreign Aid, Foreign Policy, and Strategic Development*. Dissertation Princeton University.
- Bermeo, Sarah Blodgett. 2009. "The Curse of Aid? Re-Examining the Impact of Aid on Regime Change." Paper presented at the annual meeting of the American Political Science Association.
- Cheibub, Jose Antonio and Jennifer Gandhi. 2004. "Classifying Political Regimes: A Six-Fold Measure of Democracies and Dictatorships." Paper presented at the annual meeting of the American Political Science Association, Chicago, IL.
- Clemens, Michael, Steven Radelet and Rikhil Bhavnani. 2004. "Counting Chickens When They Hatch: The Short Term Effect of Aid on Growth."
- Collier, Paul. 2006. "Is Aid Oil? An Analysis of Whether Africa Can Absorb More Aid." *World Development* 34(9):1482–1497.
- Djankov, Simeon, Jose G. Montalvo Marta Reynal-Querol. 2008. "The Curse of Aid." Manuscript.
- Dollar, David and Lant Pritchett. 1998. *Assessing Aid: What Works, What Doesn't, and Why*. World bank policy research report World Bank Washington, DC: .
- Dunning, Thad. 2004. "Conditioning the Effects of Aid: Cold War Politics, Donor Credibility, and Democracy in Africa." *International Organization* 58:409–423.
- Feyzioglu, Tarhan, Vinaya Swaroop and Min Zhu. 1998. "A Panel Data Analysis of the Fungibility of Foreign Aid." *World Bank Economic Review* 12(1):29–58.

- Kalyvitis, Sarantis and Irene Vlachaki. 2009. "More Aid, Less Democracy? An Empirical Examination of the Relationship between Foreign Aid and the Democratization of Recipients." Working Paper, Athens University of Economics and Business.
- Knack, Stephen. 2004. "Does Foreign Aid Promote Democracy?" *International Studies Quarterly* 48:251–266.
- Marshall, Monty G. and Keith Jaggers. 2002. "Polity IV Data Set."
- Morrison, Kevin M. 2009. "Oil, Nontax Revenue, and the Redistributive Foundations of Regime Stability." *International Organization* 63:107–138.
- Nielsen, Richard and Daniel Nielson. 2010. "Triage for Democracy: Selection Effects in Governance Aid." Manuscript.
- Pack, Howard and Janet Rothenberg Pack. 1990. "Is Foreign Aid Fungible? The Case of Indonesia." *The Economic Journal* 100(399):188–194.
- Pack, Howard and Janet Rothenberg Pack. 1993. "Foreign Aid and the Question of Fungibility." *The Review of Economics and Statistics* 75(2):258–265.
- Przeworski, Adam, Michael E. Alvarez, Jose Antonio Cheibub and Fernando Limongi. 2000. *Democracy and Development: Political Institutions and Well-Being in the World, 1950-1990*. New York, NY: Cambridge University Press.
- Ross, Michael. 2009. "Oil and Democracy Revisited." Unpublished Manuscript, UCLA Department of Political Science.
- Stone, Randall. 2004. "The Political Economy of IMF Lending in Africa." *American Political Science Review* 98(4):577–591.